

Gas Prices (September 16, 2005)

In recent weeks, I have received hundreds of telephone calls, letters and email messages from Southwest Virginia residents who have expressed their concerns regarding the increasing price of gasoline in our area. I would like to take this opportunity to provide information to all Ninth District residents about the continuing situation and my efforts in Congress to provide relief.

The event which has caused the dramatic escalation in gasoline prices in recent weeks was Hurricane Katrina. It caused extensive damage to the infrastructure of our Gulf Coast, including its oil and gasoline production and refining facilities. The hurricane damaged and caused the closure of more than 1/4 of our nation's domestic oil production. Fifteen refineries were either shutdown or are operating on reduced capacity as a result of damage from the storm.

Oil production for the nation has been reduced by 1.4 million barrels per day, and significantly less gasoline from American refineries is reaching retail service stations. The hurricane caused a major reduction in gasoline supplies with a consequent run-up in gasoline prices.

In the immediate wake of the hurricane, I joined with other members of Congress in urging the President to withdraw crude oil from our nation's Strategic Petroleum Reserve (SPR). Shortly after that request was made, the President issued an order permitting SPR withdrawals at a level sufficient to replenish the shortfall of crude oil which has arisen because of the hurricane. Accordingly, it now appears that there is a supply of crude petroleum available commensurate with pre-hurricane levels.

The main problem we now face is a shortage of gasoline refining capacity which converts crude petroleum into gasoline.

While some of the fifteen closed or diminished refineries have begun or will begin full operations soon, a number of the refineries will remain closed until extensive repairs are made. It should also be noted that it takes approximately five days from a refinery restart for refined gasoline to be produced by the facility. I anticipate that as soon as full refinery operation returns, gasoline prices will decline to more favorable levels.

While one would expect the closure of refineries due to the hurricane to cause an increase in gasoline prices, the increase should occur only when retail gasoline stations are charged more by wholesale distributors for deliveries that occur after the hurricane. However, motorists across the nation and to some extent in our region experienced immediate dramatic increases in gasoline prices at the pump as soon as the hurricane struck. The gasoline for which these prices were charged was already in the filling stations tanks. The filling stations paid pre-hurricane wholesale prices for this product, and any effort to increase prices for that product at the pump because of the effect of the hurricane amounts to "price-gouging."

In recognition of this experience, I have asked the Federal Trade Commission to undertake an immediate investigation of possible price-gouging by retail service stations. I was joined in the making of this request by other members of the House Judiciary Committee. In addition, the House Committee on Energy and Commerce, on which I serve, has undertaken an investigation of the factors leading to increased gasoline prices, including possible price gouging by retail service stations. If illegal conduct is found to have occurred, we will insist that appropriate proceedings be instituted against parties found to be responsible.

During the hearings by the House Committee on Energy and Commerce, we have inquired into appropriate ways to protect America's oil production and refining infrastructure from future natural disasters. I have long believed that the nation needs more refining capacity and that it should be placed in more geographically diverse regions of the United States so that one large storm or other natural disaster does not have a noticeable economic effect on America's energy prices. Hopefully the experience of Hurricane Katrina will stimulate a broad effort to diversify the location of America's refining capacity.

While Hurricane Katrina was the cause of the most recent run-up in gasoline prices, other factors have boosted crude oil prices with a consequent increase in gasoline prices over the past two years. Those factors notably include the rise of China and India as major economic forces with strong demands for crude oil, coal and other energy resources and building supplies from concrete to steel. The strong demand of these growing economies for petroleum was the major pre-hurricane cause of significantly higher fuel costs.

Another cause of higher gasoline prices is the war in Iraq. Prior to the war, Iraq was sending to the world market approximately 2 million barrels of oil per day under the Oil for Food Program. Today, because of instability in Iraq, the flow of oil from that nation has been reduced to a trickle, and the threat of terrorism stemming from the Iraq war in the Persian Gulf has dramatically increased insurance premiums for shipping of oil products from nations such as Kuwait and Saudi Arabia. Those higher insurance premiums, born of regional instability, have also significantly contributed to the rising cost of gasoline at the pump in the United States.

I would like to thank all of those who called or wrote to share their concerns with me, and I invite any comments or recommendations about additional steps we can take to address gasoline prices and other fuel costs. Please feel free to contact me to share any future concerns.